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TESTIMONY OF
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COMPTROLLER GENERAL
OF THE UNITED STATES
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON
S. 2629
THE BUDGET REFORM ACT OF 1982

Mr. Chairman and Members of the Committees:

I am very pleased to appear before you today to discuss reforming the Congressional Budget Act. The Budget Reform Act of 1982, S. 2629, is designed to establish a 2-year budget process, improve congressional control over the budget, streamline the requirements of the budget process, improve the legislative and budgetary processes by providing additional time for oversight and other legislative activities, and provide stability and coherence for recipients of Federal funds. I believe these areas fully warrant the attention that your committee is giving to them.



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The current Budget Act, by providing an operational umbrella over the other policymaking processes of the Congress (budget and fiscal policymaking, appropriations, revenue raising, and authorization), was designed to create a framework within which the Congress could set national budget priorities and establish appropriate levels of Federal revenues and expenditures.

However, implementation of this act has most recently been beset with difficulties. At the time you introduced S. 2629, Mr. Chairman, you and many of your colleagues have commented on the severe timing problems, the repetition and duplication in the process, and the increased use of continuing resolutions. The budget has become so all consuming that little time is left for other legislative matters. Nevertheless, despite these extraordinary efforts of members of Congress, delays in funding decisions have increased. These delays have an effect on both financial markets and the effective and efficient operation of government agencies and programs.

I share your view that the Congress must solve these problems, and must solve them soon.

I think it is essential that we bring much greater stability to our government's activities and thus to our economy. Accomplishing this task will require not only that we strengthen the basic framework for congressional decisionmaking but also that we greatly improve the Federal Government's financial management systems at all levels.

S. 2629, The Budget Reform Act of 1982

We believe that biennial budgeting offers several potential advantages over the current system. It can reduce the number of times the Congress must act on the same programs. It can provide more time for long-range planning and oversight. It can provide the opportunity for better budget analysis, financial and operational planning, budget execution, and program review by both the Congress and the executive branch.

Biennial budgeting can also provide more funding certainty for recipients of Federal monies or services, especially if it were coupled with greater use of advance funding for these programs.

Despite these potential advantages, several items must be given particular attention:

- the sequence and timing of key events;
- the adjustment mechanisms in the second year;
- streamlining the process; and
- the estimating process, particularly for revenues and entitlements.

I will briefly discuss each of these items.

Sequence of key events and timetable

Determining the sequence of key events and constructing a realistic biennial timetable is very difficult. Any budget timetable represents a series of decisions as to the choice of key events in the budget process, the sequence of those events, and the amount of time allowed for each event. The timetable of the 1974 Act assumed that all the then-existing events in the budget process would remain. The Act further superimposed on all these events a guiding first budget resolution with targets, a

binding second budget resolution with ceilings, and a reconciliation process. This timetable also assumed that authorizations would precede appropriations.

A biennial schedule could include all of the steps in the current process, fewer steps, or different steps. A biennial schedule could spread the budget events over an entire 2-year period with oversight occurring throughout or it could put the budget events in the first year, followed by oversight in the second year or vice versa. The biennium could coincide with the two years of a Congress or could overlap Congresses. The fiscal period could begin October 1, as it does now, or could be changed to January, or back to July.

The timetable in S. 2629 differs substantially from other biennial budget proposals we have reviewed. Under S. 2629, all budget decisions would be made in the first session of Congress; the second session would be devoted primarily to oversight. This timetable is attractive because

- it allows difficult budget votes to come in a non-election year;
- it allows budgets to be adopted during the first year of a President's term, when there is more chance of consensus between the President and the Congress;
- it allows a newly-elected President to initiate swiftly the program outlined in the campaign; and
- it leaves the Congress relatively free in the second session to perform program and policy oversight, building a base of information for consideration in the subsequent biennium.

However, this timetable does have some drawbacks. New Presidents would have little time to develop a comprehensive budget policy unless their top executives were identified early and were ready to go to work soon after the election. This problem might be ameliorated by sliding the dates for congressional action. But this would restrict the time available for congressional deliberation, which has been relieved only slightly by shifting the start of the fiscal period to January 1.

Other timetables have different advantages and drawbacks. None seem to satisfy every concern. The choice involves tradeoffs. On the whole, we favor a timetable having congressional action on the budget take place in the first year of a Congress, with oversight and other activities primarily concentrated in the second year.

Adjustment mechanisms

Operating under a biennial budgeting system does not mean passing a budget once every 2 years and having to live with it no matter what happens. A biennial budget system should provide the flexibility to adjust to contingencies and changing conditions. In our review of State experience, we found several different mechanisms for making adjustments. Some accomplish it through an annual review process in the second year. Others confer authority for adjustments on a small group of legislators, usually members of the appropriations and finance committees, with executive branch representatives acting as advisors. The group meets periodically to deal with any proposed adjustments

to the budget within some established constraints and rules. A third approach allows the executive branch to make adjustments to the budget in consultation with the appropriations committees, again within rules established in the budget acts.

Existing congressional adjustment procedures, such as supplemental appropriations, rescissions, deferrals, transfers, and reprogrammings, do provide flexibility. But, to avoid or discourage frequent revisions and abuse, we need more specific procedures and someone responsible for managing the adjustment process, such as the appropriations committees. We favor this approach over the other alternatives. In considering this issue, however, we urge that the adjustment process be limited to matters that cannot await the next biennial budget. If the adjustment process becomes simply a vehicle for reopening decisions, the advantages of biennial budgeting will soon be lost.

Streamlining the Process

Many have argued that the current budget process is too cumbersome and repetitive and, therefore, is in need of streamlining whether or not we change to a biennial fiscal period. S. 2629 has several features designed to streamline the process:

- a single binding budget resolution,
- an omnibus appropriations bill,
- withholding "budget-busting" bills from enrollment, and
- reconciliation anytime after passage of the budget resolution.

In general, we like the direction of these proposed changes. The single binding budget resolution is attractive because it

eliminates the repetition of the second and, at times, third budget resolutions. We are concerned, however, that the two-thirds requirement to amend the budget resolution may be too restrictive. We support, instead, having a first resolution with a provision to make the first binding if the second is not passed by a certain date (as is now in effect for the Fiscal Year 1983 budget).

The omnibus appropriations bill would accomplish two things. It would eliminate the repetition of passing 13 appropriations bills and it would tend to strengthen the discipline in the process. That it failed to work once before (for the 1950 appropriations) is certainly basis for concern, but the idea is worth further further consideration. On the other hand, retaining the 13 separate appropriations bills does have the advantage of continuing the more specialized and detailed attention given to parts of the budget by the Congress as a whole. Another alternative you might want to explore for even greater integration would be a single consolidated budget bill, embracing revenue actions and the debt limit, as well as appropriations. This would provide further assurance of consistency among various aspects of the budget.

The third feature, withholding bills from enrollment, allows the Congress to see the cumulative effect of spending bills before completing action on the budget and eliminates the vulnerability of the last bill scheduled for floor action. It is a mechanism that has already proved fairly effective in allowing the Congress to see the effects of their actions, but it also contributes to the number of decisions required at the end of the process.

Allowing reconciliation at any time after the budget resolution is passed would add some flexibility. We believe this would be useful. Indeed, as a general principle, we would tend to favor less rigid schedules, with fewer hurdles to overcome when creating a budget. I cannot emphasize enough the importance of simplifying the Federal budget process. Each time a complicating factor is introduced into the process, it increases in geometric proportions the complexities of executive branch formulation, presentation, and execution of the individual budgets.

For example, when the Congress passes a continuing resolution, then later passes an appropriations bill, and still later passes a supplemental appropriation, agencies affected by that action must apportion, allocate, and administer their funds three times for the fiscal year instead of one. The analysis, justification, reconciliation, and administration of three different sets of numbers for a fiscal year has to consume more than three times the effort that would be required to formulate, present, and execute one set of budget figures.

On the other hand, when the Congress does not pass a continuing resolution on time, one of the other effects of the legislative budget process can be the shutdown of the Government, as happened on November 23, 1981. The Constitution precludes the expenditures of public funds except pursuant to appropriations made by law. The Antideficiency Act establishes procedures and criminal penalties to assure compliance with the constitutional requirement. For many years, the Congress and the President were able to meet fiscal year deadlines for passing appropriations measures to assure the smooth continuation of Government operations from year to year. As Government activity and related budget consideration grew more complex,

however, it became increasingly difficult to meet fiscal year deadlines on an agency-by-agency basis. Continuing resolutions were used to avoid disrupting Government operations. However, as fiscal years were ending without enactment of either specific appropriations or continuing resolutions, anxieties increased, but congressional action took place in sufficient time to avoid more than a day or two without provision of funds.

GAO took the position that allowing employees to report for work after the lapse of appropriations would constitute violation of the Antideficiency Act. But, on the premise that Congress expected the Government to continue functioning, we did not pursue our normal course in dealing with the statutory violations involved. That is where the issue stood until April 25, 1980--the day the Attorney General issued a landmark opinion concluding in essence that except for activities necessary to achieve an orderly shutdown, Government operations must cease when appropriations lapse without provision of new funding. He went on to say that future violations would be subject to criminal prosecution. The Attorney General's opinion was designed to force the Congress to meet budget deadlines, thereby avoiding end-of-fiscal-year confusion. The Congress, in light of the decision, later enacted a continuing resolution only to have it vetoed. The costly shutdown occurred. The real culprit is a budget system that promotes confrontation.

In March 1981, we reported to the Congress on the negative consequences of this annual race against the clock to avoid funding gaps. The report emphasized the serious disruptions to program activities and the general demoralizing effect of repeated periods

of uncertainty as to whether operations would have to cease. We recommended to the Congress that permanent statutory authority should be enacted to allow the incurrence of obligations to continue during periods of lapsed appropriations, to minimize the ill effects of such situations.

For example, the Congress could consider adopting some form of legislation which would permanently and automatically continue funding. The authority could (1) be in effect for a limited amount of time (less than 1 year) and (2) fund programs at the level of the previous fiscal year or (3) fund them at a reduced level. Government programs would be allowed to continue while the Congress had time to make orderly decisions.

The last type of hurdle or deadline relates to the debt ceiling. Voting once to raise the debt ceiling is painful enough without having to deal with this issue twice, as the Senate did this year in 4 months' time. Would it not be preferable to increase the ceiling by larger amounts in order to extend the time period covered by this legislation both to avoid lapses in government funding and reduce the need for frequent decisions on that issue?

Revenue and entitlement estimates

The present budget process has been complicated by the wide divergence in budget estimates coming from different sources, particularly for revenues and entitlements. This has sometimes caused the debate to focus on the credibility of the estimates, rather than the policy issues. Biennial budgeting makes estimating even more important. We have no

ready solution to this problem, but urge that it be given careful attention.

Federal financial management

We believe a shift to biennial budgeting is worth serious exploration. By itself, however, that change might solve only some of the problems. If it happened in isolation, it would not live up to its full potential. Better national decisionmaking and policymaking require major strengthening of executive branch budget submission and related processes, as well. We believe great improvements are needed in the overall financial management system of the Federal Government.

The financial management processes and systems that support Federal policymaking--planning, budget formulation, budget execution, accounting, evaluation, and management information systems in particular--have not kept pace with the needs of the Congress or the executive branch.

The basic development of these systems has lagged badly with designs that might have been appropriate to an earlier era. Also, there has never really emerged the degree of integration that could permit these systems to be mutually supportive. Decisionmakers in both the executive branch and the Congress have had to cope with separate and often disjointed budgetary and other management systems. As we overhaul the financial management systems, our objectives should be simplification, adoption of a revised budget structure and funding methods, integration of budgeting, accounting, and other supporting systems, enhanced capability and information for congressional oversight, and a longer-term, more integrated approach to policymaking. In summary, what is needed is more stability

in government operations using new improved systems that complement each other.

Simplification

No decisionmaker can be expected to grapple simultaneously with the thousands of separate decisions represented by the appropriation account, activity, and object class structure in the Appendix to the President's Budget. Attempting to do so almost forces even the most conscientious decisionmaker to focus on the details instead of concentrating on the larger policy issues.

This is not to say that decisions at this level of detail are unimportant. Decisions made at the top of the governmental structure obviously must be converted into more detailed decisions as one moves down the hierarchy and simultaneously moves from planning broad priorities to executing specific programs and activities.

Top policy officials of the Congress, the President, and the executive agencies should focus on broad policy, including the basic direction and general content of programs. Once these directions are decided upon, program managers should be delegated the authority needed to carry out those policy decisions and should be held responsible and accountable for the results. This concept has been endorsed often in rhetoric, but over the years, more and more detailed account structure and funding constraints have been built into the process. Nevertheless, I see a greater inclination to simplify the financial management system today, in part because of the evident "decision and detail overload" that exists for top policy officials, including members of Congress.

Revised budget structure and funding methods

Currently, there are proposals to separate from the unified budget such items as capital investments and the trust funds that finance retirement programs. We agree that these issues warrant particular attention and visibility in the budget process. However, we believe that can and should be done within the unified budget. We suggest that the main budget structure might be revised to group the Federal Government's programs and activities into the following policy areas:

1. Investment in capital assets, both defense and domestic,
2. Research and development,
3. Aid to State and local governments,
4. Credit assistance,
5. Entitlements for individuals,
6. Interest, and
7. Operating expenses.

There are many ways to structure budget data. We believe modern data processing techniques should permit the budget to be reformatted in a variety of ways to serve a variety of purposes. But we think this structure would have a special value. By looking at the budget from these policy perspectives, it is easier to deal with the national needs, the Federal Government's roles, and the means for financing more comprehensively. This cannot be done program by program, nor can it be done effectively using the current budget functions although each of those structures has value for other purposes. We chose these seven categories because they each involve large portions of the Federal budget and each require different planning, financing, and management approaches.

We believe funding methods can be tailored for each of these policy areas.

Investments in capital or physical assets should involve longer-term decisions on programs and funding whenever possible. Greater stability for investment programs is a necessary ingredient in program efficiency, and we have often suggested this for major military weapons programs. A longer-term focus for investment decisions would allow the Congress to consider budget levels in relation to the overall conditions and needs for the Nation's public infrastructure and the defense structure. The 5-year programs for shipbuilding and the 3-year programs for aircraft construction are good examples of how this is presently being done for defense.

The research and development category also should include both DOD and domestic programs. Decisionmaking focused on this category would recognize the need for greater certainty and continuity of work as well as the need to look across agencies. As with capital investment programs, we believe multi-year funding is appropriate, to avoid the disruptive effects of sudden, unplanned changes in direction. We feel that this type of funding would have a very positive and stabilizing effect on the conduct of Federal R&D. Funding should be available to move from one phase of research to the next without disruption.

The third category is aid to State and local governments. The use of this category would recognize that these recipients of Federal monies need more stability and continuity of funding. GAO currently has a study underway examining the timing problem between the Federal, State, and local budget processes. The

study has found that most State and local governments must have definitive Federal information 6 months before the start of their fiscal years (in most cases July 1), but Federal decisions on funding levels are often made just before the beginning of the Federal fiscal year, October 1, if the Congress adheres to its budget timetable. This means that most Federal decisions are made at least 9 months too late from the State and local point of view. It is for this reason that we recommend that consideration be given under this new category, for funding decisions to operate on a 2-year cycle, with advance funding by 1 year.

The fourth category is credit assistance. Grouping all credit programs into a category should encourage more consistent treatment of credit activities as an integral part of the budget. Credit is now treated in a variety of ways, including loans as appropriations, repayments as receipts, loans via revolving funds, off-budget loans, and loans via government-sponsored enterprises. Many of these are off-budget or not fully disclosed in the budget. This variety of methods creates a wide range of funding cycles, many of which are already multiyear. The Congress and the Office of Management and Budget have already started to deal with credit programs as a group. We believe this could be carried further by establishing them as a separate group to make their financing more consistent and visible.

The fifth category, entitlements for individuals, brings together a family of programs that are continuous and are not linked to any particular period, other than the cyclical aspect of the timing of cost of living adjustments. Entitlements can

only be changed through altering substantive law, which can be done at any time. Generally, when the Congress sets up a program as an entitlement, it does so in recognition of the need for stability in such a program and a long-term commitment to participants. This category provides the vehicle to cluster these similar programs together in one place in the budget and to deal with them at a policy level as separate and distinct from the rest of the budget. A key policy issue for entitlements is indexation, and this issue should be treated with a degree of consistency among the programs. In past GAO reports, we have recommended that the best option for constraining the indexation process is to give the President and the Congress the discretion to modify, through the budget process, the amount of adjustment indicated by the index. This approach would restore flexibility by permitting the President and the Congress each year to make decisions balancing budgetary considerations against the desire to maintain the real level of benefits.

The sixth category is governmental operational expenses. This category would include the amount spent by Federal agencies for personnel costs, administrative travel, training, and the like. Funding decisions for these activities could be made on a 2-year cycle. However, based on our knowledge of biennial experience at the state level, it is desirable to provide a mechanism for adjustment in the second year. Care should be taken in structuring the mechanism so that the fine-tuning changes would be permitted, but the funding in this category could not be totally revised. As we suggested earlier, the Appropriations Committees might be assigned the task of managing this adjustment process.

Implementing all the changes in funding methods to achieve greater stability in government operations and services would create some additional rigidity in the expenditure elements of fiscal policy. Therefore, greater attention would need to be given in the adjustment mechanisms to revenues as well as expenditures.

Integration of budget, accounting and other supporting systems

When we think of a sound financial management system we need to think about the integration of systems which support the formulation and execution of budget policy.

Officials acquire the information they need in a wide variety of ways, and that is part of the problem. We have a vast number of information systems and sources and they frequently work at cross-purposes. We have budgeting systems, accounting systems, program and policy analysis and evaluation activities, management information systems, economic forecasting systems, program monitoring and reporting systems, auditing systems, and many others.

Each source of information tends to be designed as if there were no other source. It has its own language, its own structure, its own set of data elements, and its own reporting frequency. Thus, the decisionmaker is faced with reconciling inconsistencies and somehow figuring out what it all means.

Complaints about information overload have been around for a long time, but I suspect the time is coming when we will start doing something about it. I think it is likely to mean the development of fully-integrated data bases, from which it is possible to pull various facets of information about something of interest

(such as a program, financing source, or location) with confidence that the data has both commonality and integrity.

The budget, particularly if it begins to be simplified and restructured along the lines we are suggesting, is likely to become both the source of pressure for this integration and the framework around which the integration occurs. Systems of information that cannot be integrated around this one unifying decision framework are likely to find themselves increasingly isolated and irrelevant in the decision-making process.

Enhanced oversight and program review

We believe another component needed in financial management reform is an enhanced role for oversight, program review, and budget execution--how was the money spent and was it done efficiently and effectively. A basic feature of S. 2629's timetable is a set-aside period for the Congress to do oversight. While this should certainly go a long way to enabling the Congress to do more oversight, we did notice that the bill contains no procedures or mechanism for conducting oversight. It occurs to us that the President could be required to develop and submit a 4-, 5- or 6-year Administration budget plan that could serve as an initial input to the Congress who could then develop their oversight and program review agendas.

GAO can also focus its work on the programs and policy areas the Congress will be addressing in its oversight process and thereby better meet the information needs of the Congress. For example, we could provide the Congress one or more summary reports each biennium covering our work on major issues the Congress plans to address plus any other matters that have come to our attention

that we believe the Congress should consider. We could also provide the entire Congress with separate reports on each of the major programs and policy areas. GAO reviews can be general oversight reviews of management or program effectiveness or budget-oriented reviews to identify potential areas for savings. For example, given that military spending is projected to be about 32 percent of the total budget in 1985, up from 24 percent in 1980, we have taken a critical look at Defense's plans and examined actual use of these increased funds, and found a number of areas where improvements are needed.

Between fiscal years 1980 and 1982, the Defense budget increased by approximately \$72 billion, a 50 percent increase since the 1980 budget year. Most of the increase was directed to improving readiness and sustainability, modernizing the forces and improving the quality of life for military personnel. Our examination of this spending and the way Defense makes its spending decisions show that corrective action is required in numerous areas.

--The Secretary of Defense needs to follow through on his pledge to improve stability in the weapon systems acquisition process by eliminating marginal programs to fund higher priority programs at more economic levels of production.

--The Secretary of Defense needs to monitor more closely those programs receiving large funding increases to ensure that additional funding can be spent prudently.

--The Secretary and the Congress need better visibility over the way funds are used in the operations and main-

tenance areas. Currently the reporting to higher levels is primarily through the financial controls, such as obligation rates, rather than through reporting on what was accomplished with the funds in relation to the plan.

--The current Defense budget system needs to be improved; it is virtually silent on what was accomplished with the funds provided. In addition, Defense needs to (a) better justify its requests, (b) develop a strategy for carrying out the programs, (c) clearly state their objectives and develop a measure to gauge performance, (d) report their accomplishments in relation to their established criteria and (e) build into subsequent budget requests feedback on actual performance.

The Congress may want to consider other steps to enhance its oversight role, including using a procedure patterned after the Department of Defense SAR (Selected Acquisition Reports) system for major capital investments throughout the government.

The Defense SAR system provides useful information on the status and progress of selected major weapons systems. Through this system, which has been in existence for over a decade, some visibility on weapon system cost and cost growth, as well as changes to schedule and technical performance data and reasons for such changes, are provided to congressional committees. Just as important, the SAR system provides categories recording specific causes of cost growth. This type of data, accumulated over a period of years on a wide variety of systems, has provided

a valuable insight into such growth. We believe that although the SAR system provides useful information, it can be improved. These improvements were outlined in testimony before your Committee on April 22 of this year. The focal point of our testimony at that time was the proposed use of SAR system for major civil acquisitions, as envisioned in S. 2397. We stated that such a system would provide the Congress and top agency management with oversight data on the progress and direction of projects and allow them to readily identify problem areas and their causes. We feel that the SAR system should be an integral part of the congressional oversight process and budget execution particularly in view of the need for better information on capital investments, including development of longer-range plans and the evaluation of agency performance in light of these plans.

Integration of economic policies

Our economy is in the midst of a severe recession; yet we persist in sending mixed signals to the financial and business communities by simultaneously embracing a restrictive monetary policy and a stimulative fiscal policy. Many economists predict the economic uncertainty will continue. The conflict between monetary and fiscal policies will increase as future budget deficits overstimulate an economy already weakened by a restrictive monetary policy designed to squeeze out the recent inflationary trends.

I believe there is a growing recognition that it is the mix of fiscal, monetary, and at times incomes policies that affect economic conditions. In the final analysis, integration will

depend on the Administration, the Congress, and the Federal Reserve Board agreeing on the long-range goals and policies necessary to achieve those goals.

Closing

Because the Budget Act is so integral to the way Congress behaves as an institution, reforming it will require a bipartisan consensus within the Congress and a careful balancing of conflicting objectives. Clearly S. 2629 has been drafted with these requirements in mind. Consequently, it will be an excellent vehicle for furthering the Congress' understanding both of the issues and of some innovative approaches the Congress might wish to take toward simplifying its budget process, allowing more time for Congress to do its work, and strengthening discipline and enforcement within its budget process.

I commend the Chairman and this Committee for the thoughtful effort which has already gone into the drafting of S. 2629 and for initiating the long and difficult--but necessary--process of improving the congressional budget mechanism. I offer whatever assistance we can provide as you continue with this work.